



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ June 7, 2006

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Moravia, Iowa.

The City's receipts totaled \$417,752 for the year ended June 30, 2005. The receipts included \$77,607 in property tax, \$150,223 from charges for service, \$148,641 from operating grants, contributions and restricted interest, \$39,624 from local option sales tax and \$1,657 from other general receipts.

Disbursements for the year totaled \$559,663, and included \$193,617 for public works, \$105,029 for community and economic development and \$75,398 for general government. Also, disbursements for business type activities totaled \$139,051.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF MORAVIA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-22
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		24-25
Notes to Required Supplementary Information – Budgetary Reporting		26
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Indebtedness	1	28-29
Loan and Note Maturities	2	30
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		31-32
Schedule of Findings		33-41
Staff		42

City of Moravia

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Virginia McDonough	Mayor	Jan 2006
Bill John Baty	Council Member	Jan 2006
Dave Fenton	Council Member	Jan 2006
Frances Benell	Council Member	Jan 2006
Burkland	Council Member	Jan 2008
Bob Robinson	Council Member	Jan 2008
Jean Ballanger	City Clerk	Indefinite
Steve Goodlow	Attorney	Indefinite

City of Moravia



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Moravia, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Moravia's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Moravia as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2006 on our consideration of the City of Moravia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Moravia's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Moravia provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased by approximately \$148,000, due to an increase in City spending for street projects and housing rehabilitation.
- The cash basis net assets of the City's business type activities increased approximately \$6,200.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue, Road Use Tax Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer operations, considered to be major funds of the City.

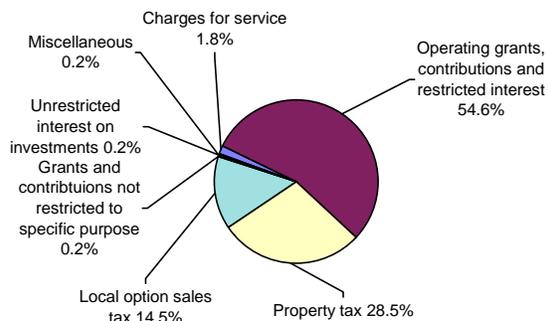
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

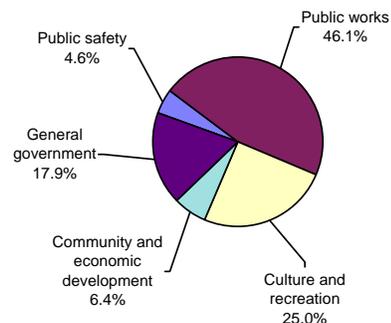
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$231,248 to \$83,128. The analysis that follows focuses on the changes in cash balances of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service	\$ 4,963
Operating grants, contributions and restricted interest	148,641
General receipts:	
Property tax	77,607
Local option sales tax	39,624
Grants and contributions not restricted to specific purpose	415
Unrestricted interest on investments	583
Miscellaneous	659
Total receipts	<u>272,492</u>
Disbursements:	
Public safety	19,536
Public works	193,617
Culture and recreation	27,032
Community and economic development	105,029
General government	75,398
Total disbursements	<u>420,612</u>
Decrease in cash basis net assets	(148,120)
Cash basis net assets beginning of year	<u>231,248</u>
Cash basis net assets end of year	<u>\$ 83,128</u>

Receipts by Source



Disbursements by Function



The cash basis assets for the City's governmental funds decreased primarily due to an increase in City spending for street projects and housing rehabilitation.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 71,166
Sewer	74,094
Total receipts	<u>145,260</u>
Disbursements:	
Water	76,506
Sewer	62,545
Total disbursements	<u>139,051</u>
Increase in cash basis net assets	6,209
Cash basis net assets beginning of year	<u>70,642</u>
Cash basis net assets end of year	<u><u>\$ 76,851</u></u>

The cash basis net assets for the City's business type activities remained relatively consistent.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Moravia completed the year, its governmental funds reported a combined fund balance of \$83,128, a decrease of more than \$148,000 from last year's combined fund balance of \$231,248. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$50,827 from the prior year to a year-end balance of \$141,956. The decrease is attributable to an increase in disbursements for housing rehabilitation.
- The Road Use Tax Fund cash balance decreased \$97,293 from the prior year to a year end deficit balance of \$58,828. This decrease is attributable to an increase in spending for street projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$5,340, to a year end balance of \$29,269, which was not considered a significant change.
- The Sewer Fund cash balance increased by \$11,549, to a year end balance of \$47,582, which was not considered a significant change.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 7, 2005 and resulted in an overall increase of \$185,234 in operating disbursements related primarily to housing rehabilitation and street projects.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$472,542 in long-term debt.

Principal payments in FY2005 reduced outstanding debt by \$29,545, without the issuance of any new debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$670,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Moravia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities. The City's fiscal year 2006 taxable valuation increased 1.9% from the fiscal year 2005. We have many citizens which take advantage of the Moravia Urban Revitalization Plan which reduces taxes on new houses or improvements on their homes.

The proposed fiscal year 2006 budget includes total receipts of \$333,811 and disbursements of \$333,811.

The proposed FY2006 levy is \$8.10 per \$1,000 of taxable property valuation, which is unchanged from FY2005.

These parameters were taken into account when adopting the budget for FY2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jean Ballanger, City Clerk, P.O. Box 246, 116 S. William, Moravia, Iowa 52571-0246.

City of Moravia

Basic Financial Statements

City of Moravia

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 19,536	101	35,221
Public works	193,617	-	59,283
Culture and recreation	27,032	2,252	8,885
Community and economic development	105,029	-	45,252
General government	75,398	2,610	-
Total governmental activities	420,612	4,963	148,641
Business type activities:			
Water	76,506	71,166	-
Sewer	62,545	74,094	-
Total business type activities	139,051	145,260	-
Total	\$ 559,663	150,223	148,641

General Receipts:

Property tax levied for general purposes
 Local option sales tax
 Grants and contributions not restricted to specific purpose
 Unrestricted interest on investments
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
15,786	-	15,786
(134,334)	-	(134,334)
(15,895)	-	(15,895)
(59,777)	-	(59,777)
(72,788)	-	-
(267,008)	-	(267,008)
-	(5,340)	(5,340)
-	11,549	11,549
-	6,209	6,209
(267,008)	6,209	(260,799)
77,607	-	77,607
39,624	-	39,624
415	-	415
583	-	583
659	-	659
118,888	-	118,888
(148,120)	6,209	(141,911)
231,248	70,642	301,890
\$ 83,128	76,851	159,979
\$ 83,128	76,851	159,979

Exhibit B

City of Moravia

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2005

	<u>Special Revenue</u>		
	General	Road Use Tax	Total
Receipts:			
Property tax	\$ 77,607	-	77,607
Other city tax	19,812	19,812	39,624
Licenses and permits	941	-	941
Use of money and property	3,650	-	3,650
Intergovernmental	69,793	59,283	129,076
Miscellaneous	21,594	-	21,594
Total receipts	<u>193,397</u>	<u>79,095</u>	<u>272,492</u>
Disbursements:			
Operating:			
Public safety	19,536	-	19,536
Public works	19,400	174,217	193,617
Culture and recreation	27,032	-	27,032
Community and economic development	105,029	-	105,029
General government	73,227	2,171	75,398
Total disbursements	<u>244,224</u>	<u>176,388</u>	<u>420,612</u>
Deficiency of receipts under disbursements	(50,827)	(97,293)	(148,120)
Cash balances beginning of year	192,783	38,465	231,248
Cash balances end of year	<u>\$ 141,956</u>	<u>(58,828)</u>	<u>83,128</u>
Cash Basis Fund Balances			
Unreserved:			
Designated for fire department	\$ 120,859	-	120,859
Designated for library	19,275	-	19,275
Unreserved, undesignated, reported in:			
General fund	1,822	-	1,822
Special revenue fund	-	(58,828)	(58,828)
Total cash basis fund balances	<u>\$ 141,956</u>	<u>(58,828)</u>	<u>83,128</u>

See notes to financial statements.

City of Moravia

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Fund

As of and for the year ended June 30, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 71,166	74,094	145,260
Operating disbursements:			
Business type activities	76,506	62,545	139,051
Excess (deficiency) of operating receipts over (under) operating disbursements	(5,340)	11,549	6,209
Cash balances beginning of year	34,609	36,033	70,642
Cash balances end of year	\$ 29,269	47,582	76,851
Cash Basis Fund Balances			
Unreserved	\$ 29,269	47,582	76,851

See notes to financial statements.

City of Moravia

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Moravia is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1851 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Moravia has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Moravia has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission and the Appanoose County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Moravia maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development, general government and business type activities functions.

(2) Cash and Investments

The City's deposits in the local bank at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Repurchase agreements	\$ 28,112	28,112	July 2005

Interest rate risk, custodial credit risk and concentration of credit risk: The City has not adopted an investment policy.

(3) Loan and Notes Payable

Annual debt service requirements to maturity for the bank loan and sewer revenue notes are as follows:

Year Ending June 30,	Bank Loan		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2006	\$ 18,031	8,021	13,100	16,149	31,131
2007	19,048	7,004	13,756	15,485	32,804	22,489
2008	20,107	5,945	14,443	14,828	34,550	20,773
2009	21,257	4,795	15,166	14,055	36,423	18,850
2010	22,455	3,595	15,923	13,286	38,378	16,881
2011 - 2015	53,093	3,352	92,385	53,517	145,478	56,869
2016 - 2020	-	-	117,916	27,636	117,916	27,636
2021 - 2022	-	-	35,862	2,255	35,862	2,255
Total	\$ 153,991	32,712	318,551	157,211	472,542	189,923

Bank Loan Agreement

On August 14, 2002, the City entered into a loan agreement with the local bank for \$200,000. The funds were used for street improvements. The loan bears 5.50% per annum interest and is to be repaid in monthly installments of \$2,171, including interest, beginning September 14, 2002 and ending August 14, 2012. The balance of the loan at June 30, 2005 was \$153,991.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$4,479, equal to the required contribution.

(5) Risk Management

The City of Moravia is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2005 were \$9,659.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, policy professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

(7) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit balance of \$58,828 at June 30, 2005. The deficit balance was a result of disbursements for street projects in FY2005. The FY2006 budget includes fewer street projects, which will reduce the deficit balance.

Required Supplementary Information

City of Moravia
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 77,607	-
Other city tax	39,624	-
Licenses and permits	941	-
Use of money and property	3,650	-
Intergovernmental	129,076	-
Charges for service	-	145,260
Miscellaneous	21,594	-
Total receipts	272,492	145,260
Disbursements:		
Public safety	19,536	-
Public works	193,617	-
Culture and recreation	27,032	-
Community and economic development	105,029	-
General government	75,398	-
Business type activities	-	139,051
Total disbursements	420,612	139,051
Excess (deficiency) of receipts over (under) disbursements	(148,120)	6,209
Balances beginning of year	231,248	70,642
Balances end of year	\$ 83,128	76,851

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
77,607	73,029	73,029	4,578
39,624	61,605	61,605	(21,981)
941	740	740	201
3,650	2,000	2,000	1,650
129,076	84,965	270,199	(141,123)
145,260	139,166	139,166	6,094
21,594	500	500	21,094
417,752	362,005	547,239	(129,487)
19,536	50,280	50,280	30,744
193,617	119,926	230,160	36,543
27,032	36,198	36,198	9,166
105,029	-	75,000	(30,029)
75,398	36,069	36,069	(39,329)
139,051	119,532	119,532	(19,519)
559,663	362,005	547,239	(12,424)
(141,911)	-	-	(141,911)
301,890	263,472	263,472	38,418
159,979	263,472	263,472	(103,493)

City of Moravia

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$185,234. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development, general government and business type activities functions.

Other Supplementary Information

City of Moravia
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Bank Loan: Street Improvements	Aug 14, 2002	5.50%	\$ 200,000
Sewer Revenue Notes	Oct 17, 2003	5.00%	\$ 350,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 171,060	-	17,069	153,991	8,983
\$ 331,027	-	12,476	318,551	16,781

Schedule 2

City of Moravia
Loan and Note Maturities
June 30, 2005

Year Ending June 30,	Bank Loan		Sewer Revenue Note	
	Issued Aug 14, 2002		Issued Oct 17, 2003	
	Interest Rates	Amount	Interest Rates	Amount
2006	5.50%	\$ 18,031	5.00%	\$ 13,100
2007	5.50	19,048	5.00	13,756
2008	5.50	20,107	5.00	14,443
2009	5.50	21,257	5.00	15,166
2010	5.50	22,455	5.00	15,923
2011	5.50	23,722	5.00	16,719
2012	5.50	25,059	5.00	17,555
2013	5.50	4,312	5.00	18,433
2014		-	5.00	19,355
2015		-	5.00	20,323
2016		-	5.00	21,339
2017		-	5.00	22,407
2018		-	5.00	23,527
2019		-	5.00	24,704
2020		-	5.00	25,939
2021		-	5.00	27,236
2022		-	5.00	8,626
Total		<u>\$153,991</u>		<u>\$318,551</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Moravia, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 20, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Moravia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Moravia's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B) and (C) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Moravia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Moravia and other parties to whom the City of Moravia may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Moravia during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 20, 2006

City of Moravia
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records in the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:
- (1) Cash – reconciling bank accounts, custody of petty cash, initiating cash receipts and disbursement transactions and handling and recording cash.
 - (2) Investments – detailed record keeping, custody and reconciling.
 - (3) Long term debt – recording and reconciling.
 - (4) Receipts – collecting, depositing, journalizing and posting.
 - (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (6) Disbursements – purchasing, check signing, recording and reconciling.
 - (7) Payroll – preparing, recording, custody and distributing.
 - (8) Accounting system – performing all general accounting functions and having custody of City assets.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer.

Response – The check and balance system will be reviewed by the Council and changes for internal control will be made as needed.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year. Also, a monthly receipt register is not prepared.

City of Moravia

Schedule of Findings

Year ended June 30, 2005

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month. The City Council should review the reconciliations and monitor delinquencies. A monthly receipt register should be prepared and water and sewer receipts should be identified separately for proper recording.

Response – The Clerk will reconcile the utility accounts on a monthly basis and will establish a spreadsheet to identify water and sewer receipts.

Conclusion – Response accepted.

- (C) Accounting Records – Monthly financial reports were not prepared and provided to the City Council for review and approval. Also, the Clerk’s fund balances were not reconciled monthly to the bank accounts. At June 30, 2005, an unexplained variance of \$436 existed between the bank and the fund balances.

Recommendation – Monthly financial reports should be prepared and provided to the City Council for its review and approval. Also, to improve financial accountability and control, the fund balances should be reconciled monthly to the bank balances. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Response – The Clerk will prepare monthly financial reports and have the Council review and approve. Also, we will reconcile fund balances to bank balances each month.

Conclusion – Response accepted.

- (D) Disbursements – Supporting documentation could not be located for certain disbursements. This matter was resolved for audit purposes.

Recommendation – All supporting disbursement documentation should be maintained.

Response – We will make sure we have supporting documentation for checks written.

Conclusion – Response accepted.

- (E) Travel Policy – The City has not adopted a policy on travel or mileage by city employees.

Recommendation – The City should adopt a travel policy.

Response – The City will adopt a travel policy.

Conclusion – Response accepted.

City of Moravia

Schedule of Findings

Year ended June 30, 2005

- (F) City Water Ordinance – The City water ordinance requires water service to be discontinued under certain conditions. The City is not following its water ordinance for discontinuing water service. Also, certain water accounts have outstanding balances of over two months. The total balance of outstanding water accounts is \$7,937 at June 30, 2005.

Recommendation – The City should follow its water ordinance or change the ordinance to its current practice.

Response – The City will follow the ordinance and discontinue service as needed on a monthly basis.

Conclusion – Response accepted.

- (G) Payroll – Time cards/time sheets were not maintained for certain City employees.

The City's personnel policies and procedures state vacation earned and not taken by June 30 of the following year cannot be carried over and will be lost. Also, the policy limits the vacation earned by the number of years of employment with the City. One former employee was paid for their vacation balance in excess of the established limitations.

Recommendation – Time cards/sheets should be prepared by all City employees. Time cards/sheets should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll.

The City should follow its personnel policies and procedures for the payment of accumulated vacation balances to former employees.

Response – Time sheets will be completed by all employees and approved by a supervisor or independent official.

In the future the City will follow its policy for the payment of vacation balances to former employees.

Conclusion – Response accepted.

- (H) Health Insurance Premiums – Certain City employees pay health insurance premiums directly and are reimbursed by the City. This was not done in accordance with a flexible benefit or cafeteria plan.

Recommendation – The City should establish a flexible benefit or cafeteria plan for health insurance premiums or the payments to the employee should be reported as taxable income to the employee.

Response – The City will include health insurance premiums paid by employees and reimbursed by the City on the employees W-2 as taxable income.

Conclusion – Response accepted.

City of Moravia

Schedule of Findings

Year ended June 30, 2005

- (I) Debt Service Expenditures – The City budgeted and made debt payments from the Road Use Tax Fund in the public works function. Debt payments would be more appropriately budgeted from the debt service function.

Recommendation – The City should budget debt payments from the debt service function.

Response – The City will budget debt payments for Road Use in the debt service function.

Conclusion – Response accepted.

- (J) Timely and Intact Deposits – Deposits are not made timely and intact.

Recommendation – Deposits should be made timely and intact.

Response – The City will make all deposits in a timely manner and intact.

Conclusion – Response accepted.

- (K) Records of Accounts/Separately Maintained Records – The Moravia Fire Fighters, the Moravia Library and the Moravia First Responders each maintain their bank accounts and accounting records separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk’s records. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose.”

Also, the Moravia Fire Fighters and the Moravia First Responders have one person who has primary control over receipts, deposits, disbursements and bank reconciliations.

Recommendation – The Moravia Fire Fighters, Moravia Library and the Moravia First Responders financial transactions and balances should be included in the City Clerk’s monthly financial reports. Internal controls could be strengthened and operating efficiency could be increased by integrating the accounting receipts and disbursements with the City accounting records.

Response – We will obtain financial information from the Library, the Fire Fighters and the First Responders and include these financial transactions on our monthly reports.

Conclusion – Response acknowledged. Also, internal controls could be strengthened if accounting functions were integrated with the City’s records.

City of Moravia

Schedule of Findings

Year ended June 30, 2005

- (L) Information Systems – During our review of internal control, the existing control activities in the City’s computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer based systems were noted:

The City does not have written policies for:

- Ensuring only software licensed to the City is installed on computers.
- Usage of the internet.
- Running the anti-virus program on a regular basis.

Also, the City does not have a written disaster recovery plan. The City also does not maintain backup tapes in a secured off site location.

Recommendation – The City should develop a written policy addressing the above item to improve the City’s control over computer based systems. A written disaster recovery plan should be developed and backup tapes should be secured in an off site location.

Response – The City will write up policies for allowing only City licensed software, usage of the internet and the running of an anti-virus program on a regular basis.

The City will also adopt a written policy for a disaster recovery plan. The Clerk will take backup CD’s home with her.

Conclusion – Response accepted.

City of Moravia

Schedule of Findings

Year ended June 30, 2005

Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. However, a maximum amount was not stated in the resolution.

Recommendation – Chapter 12C.2 of the Code of Iowa requires the City, by written resolution, to name each depository approved for depositing all City funds and to specify the maximum dollar amount which may be kept on deposit at each depository. The City should monitor deposit amounts to ensure deposits do not exceed the specified maximum dollar amount.

Response – The City will include a maximum amount when naming the official depository.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the community and economic development, general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City amended its budget on June 7, 2005. However, disbursements had exceeded the amounts budgeted in the public works and general government functions prior to adoption of the budget amendment.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended before disbursement go over budgeted amounts.

Conclusion – Response accepted.

- (3) Questionable Disbursements – One disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted. This disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Ron Cormeny Memorial Fund	Memorial for former employee	\$ 100

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

City of Moravia

Schedule of Findings

Year ended June 30, 2005

Recommendation – The Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – The City will only disburse money for public purpose items.

Conclusion – Response accepted.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
John Baty, Council Member, Owner of Baty Electric	Labor and electrical supplies	\$ 784

In accordance with Chapter 362.5(11) of the Code of Iowa, this transaction does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish a summary of receipts and annual individual salaries as required.

Response – The City will public a summary of receipts and annual individual salaries in the local paper.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City has not approved a written investment policy as required by Chapter 12B.10B of the Code of Iowa and has not obtained a public funds custodial agreement as required by Chapter 12.B10C.

City of Moravia
 Schedule of Findings
 Year ended June 30, 2005

Recommendation – The City should approve a written investment policy and obtain a public funds custodial agreement.

Response – The City will approve a written investment policy and obtain a public funds custodial agreement.

Conclusion – Response accepted.

- (9) Emergency and Employee Benefits Fund – The City has not established separate funds to account for the emergency and employee benefits tax levies. The property tax collected from the emergency and employee benefits tax levies were reported in the General Fund.

Recommendation – The City should establish Special Revenue Funds for Emergency and Employee Benefits to separately account for these property tax collections.

Response – The City will establish Special Revenue Funds for Emergency and Employee Benefits.

Conclusion – Response accepted.

- (10) Financial Condition – At June 30, 2005, the City had a deficit balance as follows:

Fund	Balance June 30, 2005
Special Revenue:	
Road Use Tax	\$ (58,828)

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City will do what’s necessary to return this fund to a sound financial position. Also, the FY2006 budget includes fewer street projects which will reduce the deficit balance.

Conclusion – Response accepted.

- (11) Public Hearing – The City did not comply with the requirements for public hearings for road project contracts over \$35,000 included in Sections 384.95 to 384.103 of the Code of Iowa.

Recommendation – The City should hold public hearings in compliance with Sections 384.95 to 384.103 of the Code of Iowa.

Response – The City will hold public hearings for road projects over \$35,000.

Conclusion – Response accepted.

City of Moravia

Schedule of Findings

Year ended June 30, 2005

- (12) Annual Financial Report – The annual financial report prepared by the City was not supported by the City's financial records.

Recommendation – The annual financial report should be supported by the City's financial records.

Response – The City will verify the annual financial report is supported by all the financial records.

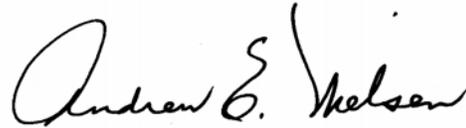
Conclusion – Response accepted.

City of Moravia

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor II
Tiffany A. Gossweiler, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State